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1986 PUBLIC EXPENDITURE SURVEY: HEALTH AND PERSONAL SOCIAL SERVICES

Note of a meeting held in the Chief Secretary's Room
H M Treasury, at 5.30pm on Tuesday, 9 September 1986

Those present

HMT

Chief Secretary
Mr F E R Butler
Miss M Peirson
Mr P Gray
Ms P Boys
Miss Z Everest-Phillips
Mr A Tyrie

DHSS

Secretary of State for
Social Service
Mrs T Banks
Mr I Burns
Mr J Mayne
Mr A Laurance

Mr J Davies (Welsh Office)

Mr H Robertson (Scottish Office)

The Chief Secretary opened by saying that the problems in achieving the planning total were such that he was having to take a tough line on all programmes. That meant he had to pay particular attention to the relative priorities the Secretary of State attached to his bids.

2 The Secretary of State stressed the importance of maintaining the progress already made in making the best use of resources and improving health care. The Government did not spend as much as other European countries; but he believed it made better use of resources available. If this was to be sustained, it was necessary to ensure sufficient

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provision to meet unavoidable pressures on the service from demography and medical advances. Waiting Lists and the position of London would be big political issues. The hospital building programme was a major success. That should not be reversed.

I Hospital and Community Health Services (HCHS)

3 The Chief Secretary noted that he had already conceded the bid for demography (B1).

4 He was, however, unable to accept the bid for the consequential costs of the 1986 Review Body pay awards (B2) for two reasons:

- (i) it would increase pressure from other colleagues whose programmes were affected by Review Body settlements, and
- (ii) it would give the wrong signal to the Review Bodies for the next pay round. It would completely undermine the Government's attempts to make the Review Bodies grasp the importance of affordability.

An exception had been made in 1986 when some additional cash had been made available to the Health Service to meet the in-year cost of Review Body awards but that could not be repeated in the Survey years.

5 The Secretary of State pointed out that the Health Service was already producing savings of £150 million a year from its cost improvement programmes (cips). Rejecting this bid would mean cutting the health service by some £100 million. Mrs Banks observed that the issue was largely presentational; one could claim that pay costs had been met from the resources released by cips and that additional cash had been provided to allow for service improvements. It was important, however, to give general managers the right incentives for maintaining

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cips. Mr Griffiths had stressed that that meant linking cips to service improvements.

6 The Chief Secretary said that other programmes facing similar demands and which had no other source of income such as cips in the NHS had been given the same message about absorption of pay costs. Any concession would have implications for the success of the running costs regime. It was important to maintain the existing cash planning principle for public expenditure generally; to allow for pay increases implied a partial return to volume planning. The Secretary of State did not accept this. He said that the Health Service suffered not only from the Review Body awards but also from pay rises for non-Review Body staff. If the Review Bodies were not prepared to accept the affordability argument in setting their recommendations, it became necessary to find the cost from somewhere. It was not clear where it could be found within the HCHS.

7 The Chief Secretary pointed out that in agreeing to the Review Body recommendations for 1986 Cabinet had taken a view on how the costs should be met. The extra cash in-year for the Health Service had been exceptional: consequential costs in 1987-88 should be offset by economies elsewhere. The Secretary of State said that if Cabinet did not agree to the additional sums, the result would mean a cut in the Health Service of £100 million; they would have to take a decision on whether to accept this.

B3: Waiting Lists

8 The Secretary of State underlined the need to reduce waiting lists, which were generally seen as an indicator of the Health Service's performance. His bid would allow sums to be made available to health authorities who could demonstrate a need, where improving throughput of patients necessarily incurred extra costs, for example in use of

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operating theatres. The Chief Secretary suggested that the improved procedures within health authorities could resolve this problem without additional funding. It was wrong to pre-empt the conclusions of the review Mr Fowler had just set in train.

B4: RAWP

9 On RAWP, the Secretary of State explained that his bid constituted bridging finance to enable health authorities which were losing resources, principally the four Thames regions, to cope in the short term with gaps created by hospital closing before new facilities opened. The Chief Secretary said that this was an argument he had heard used elsewhere, for example on the schools programme, where school closures had led to short-term funding difficulties. He was not convinced, however, that it made sense to apply additional resources in areas where the long term aim was to reduce expenditure. Miss Peirson thought that slowing the transfer of funds away from London offered a solution; Mrs Banks pointed out that this would create difficulties for authorities whose plans took into account increasing allocations.

B5 -B8

10 The Secretary of State outlined the case for his four service bids on HCHS current. AIDS (B5) was proving very expensive to treat and the number of sufferers increasing very rapidly and hit the London area in particular; there was pressure for wider and more frequent screening for breast and cervical cancer; several service improvements underlay the bid for supra-regional services; and the bid for Community Care was for bridging finance, to allow facilities to be set up to receive people into the community ahead of hospital closures. These were all additional burdens on the Health Service which could not be met within existing provision.

11 The Chief Secretary accepted that these bids could be

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justified on health and political grounds but said that the Health Service had to adapt to respond to changing medical problems, through cost improvements and reordered priorities, within the overall total of what could be afforded .

13 The Chief Secretary recognised the difficulty on Community Care but stressed the constraints on public expenditure, and said that in this context one had to take into consideration the substantial increase in board and lodging payments, much of which could be accounted for by the Care in the Community policy. It was important that attention was paid to tightening up on this, to ensure that resources were correctly targetted. The impression was that any additional resources would in fact simply go to supplement joint finance. The Secretary of State pointed out that board and lodging payments did not help to ease the problem of providing proper care in the community and that whereas joint finance would in the long run solve these difficulties, there was a need for extra provision in the short term.

II HCHS capital

13 It was agreed that it was sensible to change to a presentation of NHS capital figures on a gross basis. The Secretary of State said that his bid would allow health authorities which were in the process of rationalising their estate to free large sites more quickly by moving separable units or facilities. The Chief Secretary pointed to the proposed reduction of £50/75/100 million at C5 which was supportable on two counts:

- (i) the capital programme had done very well over recent years, with a 20 per cent real increase in spending plus all the savings released through efficiency etc;

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(ii) the level of sales, the proceeds of which were fed back to offset gross spending, was such that the programme could sustain a cut of this order with no reduction in real terms. Also, the figures for HCHS capital spending should be presented gross of income from sales.

14 The Secretary of State agreed with the point on presentation but opposed the proposal to cut the programme now after the expansion of recent years.

III Centrally administered health and personal social services (CAHPSS)

15 The Chief Secretary expected that these two bids (B11 and 12) ought to be possible to resolve fairly quickly. The sums at stake were small and ways should be examined of absorbing the costs or of finding offsetting savings. On welfare food, for example, the introduction of skimmed milk for babies over one year old should be examined as a possible area for savings which could be supported on health grounds and which would be politically acceptable. Miss Peirson suggested that it might be possible to secure a discount on milk prices through a token system. Mr Burns agreed that these could be looked into. The Chief Medical Officer was due to report soon on the health implications of providing for skimmed milk in place of full milk.

16 The Secretary of State agreed also to look at possible ways of reducing the size of the EC medical cost increase or of securing offsetting savings.

IV Family Practitioner Services (FPS)

17 The Chief Secretary recognised that progress had been made on improving the quality of the FPS demand forecasts and accepted that this bid (B14) would be difficult to resist. Nevertheless, he would want to look at the scope for offsetting

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savings. On the DDRB award consequentials the issue was, again, the scope for savings. He was not convinced of the case for additional provision for blood test strips or Hepatitis B vaccine (B16 and 18). The Secretary of State agreed to look at the idea of issuing vouchers for blood test strips instead of providing them on prescription.

18 The Chief Secretary said that he perceived a clear link between the bid for FPS reassessment (B13) and the proposed reinstatement of the primary care savings (C4). Ms Boys suggested that it should be possible to score firm estimates of savings for the last two Survey years. The Secretary of State accepted savings of £127 million and £128 million being scored as suggested but noted that no exact propositions could be made at this stage in the consultative period to match these figures.

19 The Secretary of State said that he was keen to procure savings by changing the role of the General Practice Finance Corporation (GPFC) and that he hoped that a single-clause Bill would be sufficient for this. Mr Burns pointed out that there were questions of legislation and tax treatment of any proceeds which needed to be resolved with the Treasury.

20 The Secretary of State said that he was not prepared to make an increase of more than 20 pence (to £2.40) in the prescription charge for political reasons. Such savings were already scored in the baseline: he was therefore withdrawing his option for savings at C2.

21 In summing up, the Chief Secretary made the following observations:

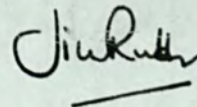
- i) The bid for HCHS demography (B1) had already been accepted;
- (ii) he was strongly opposed to B2 (Review Body pay consequentials);

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- iii) the Secretary of State had accepted the link between B13 and C4, with the qualification that targets for the savings proposed could not be precisely stated;
- iv) the scope for savings, particularly those from the GPFC, needed to be looked into further;
- v) he accepted the bid for FPS demand and inflation (B14) but that savings needed to be looked for;
- vi) officials were to do further work on the CAHPSS bids (B11 and 12) with the aim of clearing these away soon;
- vii) the proposed savings at C6 needed to be further examined.

He said that the Secretary of State had clarified the case for each of his bids and in turn the Treasury had explained its need to find savings. The position would be reconsidered at the next bilateral.



JILL RUTTER
Private Secretary

H M Treasury
12 September 1986

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Those present
Principal Private Secretary
Sir Peter Middleton

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